

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

December 10, 1999

The Honorable Bruce Babbitt  
Secretary of the Interior  
U.S. Department of the Interior  
1849 C Street, NW  
Washington, D.C. 20240

Dear Mr. Secretary:

We are writing to let you know of our continued keen interest in your oil valuation rule. As you know, the Department of Energy recently announced that proven reserves of crude oil in the U.S. fell 7% in 1998, the largest percentage decline in more than 50 years. With oil imports at 56% and rising, we view adequate domestic energy supply *not only as an important domestic economic matter but also as a key national security and foreign policy matter*. Domestic exploration and production usually involve significantly higher finding and lifting costs as compared to foreign exploration and production. Consequently, inartfully crafted oil royalty valuation regulations can clearly disadvantage domestic oil production causing more capital investment to flow outside of the United States. Ultimately, this results in a loss of well-paying U.S. jobs and a loss of royalties paid into the Treasury and the Land and Water Conservation Fund.

We note with interest that the Minerals Management Service (MMS) announced on November 23, 1999 that it would repropose the oil valuation rule (the rule). For several years now, the Congress, in a bipartisan effort, has encouraged MMS and DOI to promulgate a fair, workable rule, which would result in a win-win situation for the government, the lessees, the taxpayers, and the domestic economy. We continue to believe that this is the rational and reasonable path to take as the MMS and DOI publish a supplementary proposed rule in the near future.

We fully expect that the MMS and DOI recognize and acknowledge the fast changing domestic oil marketplace in the upstream and downstream which has resulted in a strong, viable market at the lease for crude oil. As set forth in the Consolidated Appropriations Act for FY2000, H.R. 3194, we expect that the repropose rule will comply with current law, which requires valuation at the lease. 37

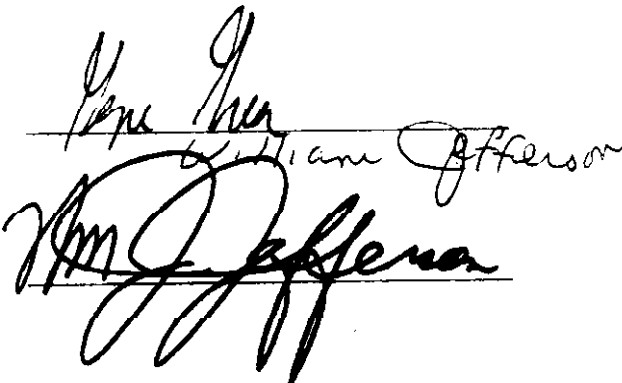
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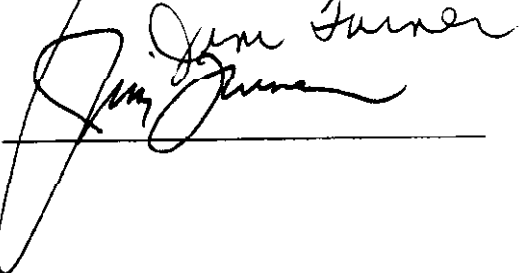
Consistent with this statutory standard, DOI and MMS should take full advantage of the extensive materials collected during the MMS workshops held earlier this year and submitted at earlier stages in the rulemaking. This means that the rule should contain the following elements:

1. For arms length transactions, gross proceeds should be the measure of value. Moreover, a control-based definition of "affiliate" should be employed to facilitate use of the appropriate valuation methodology.
2. For non-arms length transactions, a flexible benchmark program such as tendering or reliance on other arm's length transactions at or near the lease should be made available. Index-like crude oil spot prices should be used only if comparable sales-type information is not available and adequate adjustments are made for transportation and other post-production costs. Transportation adjustments should be based on the reasonable commercial value of transportation services.
3. Data collection requirements should be commensurate with a valuation approach centered on valuation of production at the lease, as the law requires, not downstream.
4. Leases must be able to procure binding valuation determinations and, even without a binding determination, should not face second-guessing of valuation methodologies simply because some higher prices that the lessee used for valuation can be found somewhere.

We stand ready to work with the Department to see that a workable, fair rule is finally implemented. If appropriate, we may file comments once a new proposal is published. Nevertheless, we do intend to ensure that the rule complies with the law, which requires valuation at the lease.

Sincerely,

  
William Jefferson

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Jim Turner  


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